

# Some of Macroeconomic Policies as Promoting Factors in Economic Development (Case Study with the Republic of Northern Macedonia)

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**Abstract:** Through this study we give a special practical and theoretical contribution to the district in general and especially to the country's institutions, as this study will initially analyze the theoretical aspects and their impact on economic development. In addition, we have tried to analyze the trade aspect for three-year period (2017-2019), identifying the comparative advantages of trade, influencing factors and improving quality as increasing factors of exports and finding a place in world markets. The discrepancies between imports and exports in Northern Macedonia have resulted in a significant negative trade balance due to the weak manufacturing sector, and as a result firms in Northern Macedonia are not yet able to compete internationally with a wide range of products. The determining factor in market entry is the ability to improve and produce according to specific quality requirements, so companies need to improve the quality of their products as soon as possible, which would enable them to compete with the international market and launch new products. Finally, we have given some recommendations on what the Republic of Northern Macedonia should do, most importantly to provide grants, subsidies and other financial assistance to organizations directly to increase their productivity and competitiveness, thus directly affecting trade flows. Republic of Northern Macedonia, ie the policy-making institutions should define the products with development potentials and finance those products in various forms in order to be competitive in the foreign market.

**Keywords:** Economic Development, Productivity Growth, Competitiveness, World Markets, Quality

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## **1. Introduction**

One can not imagine the economic development of a country without trade with other countries. Today, trade between countries is one of the fundamental factors for the economic development of countries and the global economy in general. Trade policies are an important field of study for promoting economic development, identifying sectors in which the country has a comparative advantage over other countries [11]. Due to the importance of trade between countries and for it to develop as easily as possible, it is correct to eliminate trade barriers as much as possible, so between countries in the world are formed organizations that set the rules and standards that should apply to trade between

countries. Among these organizations are: WTO, NAFTA, CEFTA, EFTA, etc. To highlight the export specializations of a given country, it is common for products to be aggregated according to different criteria [11]:

It is interesting that the structure of exports often differs from the global structure of domestic production. Therefore foreign trade and its fluctuations will have a differentiated impact on the sectors and regions of the country that await them. Similarly, an export-led increase will have a different impact compared to an increase driven by domestic demand.

Exports and Imports are of great importance for the economy according to [3, 6, 9]. Exports are a component of aggregate demand (AD), their growth will help higher

economic growth. The increase in exports may also have a knock-on effect on service-related industries. For example, the success of food exports will help the local economy, stores benefit from increased spending. Similarly, a decline in exports, during a global economic downturn can have a major negative impact on the economy.

In employment the increase in exports from the food industry creates many jobs such as in the agri-food industry in recent times, exports have become more diversified with a greater reliance on exports based on the services sector.

Trade is a type of economic activity carried out by individuals or other organizational entities more complex, and dealing with the sale and distribution of various products with purpose of supplying the population. The trade deals with the sale of surplus products, respectively with the purchase of missing products.

The trade balance is one of the most dominant items in the current account and its importance lies in the fact that it provides us with information about trade exchange with the outside world and as such enables us to identify the productive power of a country, the consuming power of that country, domestic demand, foreign demand, consumption or savings trends and provides us with detailed information on which countries we are closely economically associated with, which are the most productive and fragile sectors of the national economy. Mercantilists first appeared for international trade. Mercantilists argued that a country could develop economically if it developed exports and eliminated imports [4].

Empirically, international trade influences the economy to have positive growth, thus facilitating the accumulation of capital, improving the industrial structure, technological advancement and institutional advancement [5].

Modern trade theory explores the effects of a number of factors on trade, including technology and economies of scale. This requires a wide use of economic measurements to identify through econometrics the contribution of factors influencing international trade.

Technological changes are valued today as a temporary advantage in achieving success in international trade thereby generating a large net profit for society. Participation in the most active international market, promoting exports leads to more competition and improvement in terms of productivity [13].

Many other studies have found a positive correlation between trade and economic growth such as agricultural trade is an opportunity for many developing countries as the sector absorbs almost half of the workforce, and organizations have refocused attention on promoting food security, job creation, and structural transformation.

Economic theory has identified known channels through which trade can influence economic growth, more specifically, trade is believed to promote efficient allocation of resources, to allow a country to realize economies of scale and scope, to facilitate knowledge dissemination, foster technological progress and encourage competition in both domestic and international markets, which leads to an

optimization of processes production and in the development of new products. However, trade can not be a medicine for development, in all cases we must keep this in mind, then exports of goods and services have advantages and disadvantages for countries involved in foreign trade [7].

Many other studies also analyze the relationship between economic growth and export growth, and generally most estimate that there are positive correlations between exports of products and services and economic growth [10].

Given the fact that most of the businesses in the Republic of Northern Macedonia are small and medium enterprises, there is a need to create space for the expansion of economic activity across borders and consequently trade relations with neighboring countries and then reach the international market.

### 1.1. The Purpose of the Study

The purpose of this study is to be acquainted with at least a single summary of macroeconomic policies as determinants of economic growth and development, as well as to increase the quality of implementation of counterbalancing and anti-dumping measures in order to protect local producers and create a competitive stability in the world market.

### 1.2. Research Methodology

This study will be conducted using abundant literature aiming to analyze the reports of the most credible institutions and authors in this field of economics. The main form of methodology based on reports issued by relevant institutions of Northern Macedonia drawing parallels with countries with similar characteristics. The research is based on various reports such as: Statistical Office in the Republic of Northern Macedonia, Ministry of Economy, Central Bank and other reports.

The average or arithmetic value of the cases we have calculated with the help of the formula: [1, 2]

$$\bar{X} = \frac{\sum_{i=1}^n x_j}{n} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{n}$$

The relative dispersion of the phenomena is estimated based on the coefficient of variation (Cv), which is calculated using the following formula:

$$Cv = \frac{\sigma}{\bar{X}} \times 100,$$

We determined the balance using the formula:

$$E = (P_r + I_m) \leftrightarrow (CD + E_x)$$

## 2. Expected Results

### 2.1. Forter Trade of the Republic of Northern Macedonia

The good performance of exports and imports has played

an important role in the perspective and sustainable development of the country's economy, as well as in the trade balance, in order to withstand international competition. The growth rate of trade over the years is an important indicator of the performance of which we can judge the stability and resilience of the economy in general, as well as its ability to compete in international markets.

The event of 2020 or rather COVID-19 has significantly aggravated the world economy, the Republic of northern Macedonia similar to other countries began to implement strict control measures which have frozen a large part of the country's economy. From the first months to the middle of the same year, almost all economic activities (manufacturing and service) were completely blocked and as a result, small and medium enterprises SMEs encountered great difficulties to operate and provide services to The number of jobseekers in the country also increased much more than in previous years. Estimates made that Gross Domestic Product (GDP) per capita in Northern Macedonia reached USD 5,928.8 in December 2020. Its GDP deflator (implied price deflator) increased by 2.0% [15].

According to the State Statistical Office that publishes living expenses, which are more and more with the data, in September this year, the spending index increased by 3.7 percent, while that for retail prices by 5.6% compared to September of the previous year.

The total value of goods exported from the Republic of Northern Macedonia is 4.6 billion euros, which is a decrease of 12.8% compared to the same period of 2019. The value of goods imported in the same period reached 6.1 billion euros or 11.5% less than the same period of 2019. The total trade deficit was 1.4 billion euros.

It can also be found as another factor that hinders the

growth of trade and in this case export is as a result of weak state policies regarding productivity growth and low quality production.

The discrepancies between imports and exports of Northern Macedonia for many years now have resulted in a significant negative trade balance, thus identifying several causes such as. Weak manufacturing sector, firms in Macedonia are not yet able to compete internationally with a wide range of products then limited progress on quality and innovation.

So as the determining factor of market entry is the ability to improve and produce according to specific quality requirements; thus, domestic companies need to improve quality which would enable them to compete in the international market and launch new quality products. So from what we need to understand the fulfillment of required standards such as - ISO 9001: 2000- Quality management, ISO 14001: 2004 -Environmental management, ISO 2200: 2005-Food safety management, ISO 22174: 2005 -Food microbiology and ISO IEC 17799: 2005-Information security management practice codes [8].

## 2.2. Trade Balance Sheet of the Republic of Northern Macedonia

In almost all the studied years there were more imports and less exports in the country, so in economic terms we mean that we have a negative trade balance in the country, the total value of imports with the world estimated in the studied years is \$ 8.74 billion and exports is \$ 6.59 billion, exports cover imports around 75% this can also be seen in Table 1 expressed in US Dollar.

**Table 1.** Trade balance with the countries of the World, the European Union and the countries of the Western Balkans 000 \$.

Period	Eksport	Import	Trade balance	Percentage of coverage [14]
1	2	3	4=(2-3)	5=2/3
Trade balance with the world				
2017	5 671 466	9 440 528	-3.769,062	6,0
2018	6 907 958	9 052 195	-2.144,237	7,6
2019	7 185 157	7 719 852	-534,695	9,3
With the countries of the European Union				
2017	4 598 644	4 857 537	-258.893	9,4
2018	5 670 167	5 649 550	20.617	1,0
2019	5 804 928	5 890 994	-86.066	9,8
With the countries of the Western Balkans				
2017	666 114	740 416	-74 403	8,9
2018	760 367	799 326	-38 959	9,1
2019	820 730	867 355	-46 625	9,4

Source: From SMTTC, analyzed and processed by applying statistical methods.

Analyzing the data during the period 2017-2019 in the table above, it is noticed that we have an increase in exports from year to year with all countries and a decrease in imports. The trade deficit in 2019 reached -534.695 billion \$, so this year we have a negative balance. Total exports in

these years is 7 185 157 billion \$, while imports 7 719 852 billion, exports cover imports only 9.3%. In terms of activities that can be seen as the main economic activity we see in the table below.

**Table 2.** Exports by harmonized sections in \$ 000.

Vittet	Food and live Animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes
Exports by sections worldwide					
2017	410 849	245 036	371 463	146 741	14.148
2018	376 525	228 333	375 389	117 269	9 865
2019	347 380	225 623	323 799	85 482	6 894
Exports by sections with the European Union					
2017	173 329	150 742	290 841	37 957	872
2018	165002	138748	298604	30518	850
2019	149 956	134 927	271 339	16 054	800
Exports by sections with the Western Balkans					
2017	175 078	51 701	33 624	105 518	13 230
2018	157948	45328	35284	78353	8947
2019	140 113	39 704	24 264	66 225	6 038

Source: from SMTC, analyzed and processed by statistical methods for different sections.

From the studies of the mentioned tables, analytically we can go to a result that during this period or three years studied 2017-2019 in the exports of the Republic of Northern Macedonia dominate the prepared foods such as drinks and tobacco while the last in terms of export are products of animal origin.

In terms of trade exchanges, with the countries of the

European Union the country with the most goods imported from the Republic of Northern Macedonia is Germany, while from the countries of the Western Balkans Bosnia and Herzegovina and Albania, while Montenegro with the lowest imports. Exports by sections with the Western Balkans which are relevant and processed are shown in the Table below.

**Table 3.** Exports by Western Balkan countries in \$ 000.

Country	2017	2018	2019	Mestare
Albania	6038	89203	81243	58828
Bosnia and Hercegovina	84503	93337	94082	90640.67
Montenegro	32598	34866	34904	34122.67
Srbija	225582	277152	277663	260132.3
Kosovo	249053	265814	332838	282568.3

Source: from SMTK, analyzed and processed by statistical methods

Based on the results obtained from this model we can say that the Republic of Northern Macedonia after its independence does not have sufficient resources therefore it is obliged to import products of a considerable number for the needs of the country, eg import fuels, metals and Tecil lubricants are of fairly high value. Imports are mainly with the countries of the European Union, while less with the countries that are surrounded, characteristic is that the countries that surround more import food products with a very high value as for example with Serbia during the period 2017-2019 reaches

an average value of \$ 614.603 million followed by Albania with an average value of \$ 74,285 million while less with Montenegro with only \$ 6,412 million. The theory of gravity models suggests that neighboring countries are predisposed. Trade costs between neighboring states tend to decrease as a result of the physical proximity, cultural similarity, and trade networks built throughout history.

As for imports by sections during the study period for all countries can be seen in Table 4 where it explains for certain segments.

**Table 4.** Imports by harmonized sections / period 2017-2019 in \$ 000.

Years	Food and live Animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes
Imports by sections in the world					
2017	750 560	93 167	272 866	968 351	50 748
2018	740 600	96 624	239 772	918 162	52 906
2019	683 983	84 660	195 674	752 380	49 788
Imports by sections with the European Union					
2017	376 667	42 888	75 426	699 622	19 684
2018	381 388	45 322	79 929	682 211	19 993
2019	341 940	43 349	69 294	540 906	13 065
Imports by sections with the countries of the Western Balkans					
2017	194 733	45 532	58 814	117 125	21 084
2018	199 778	43 853	57 514	99 249	19 867
2019	180 457	36 289	66 978	98 269	24 235

Source: from SMTC, analyzed and processed by statistical methods for sections

Northern Macedonia throughout the study year 2017-2019 has a negative trade balance that can be seen based on Figure 1. which provides details on economic performance and trade development with the outside world.

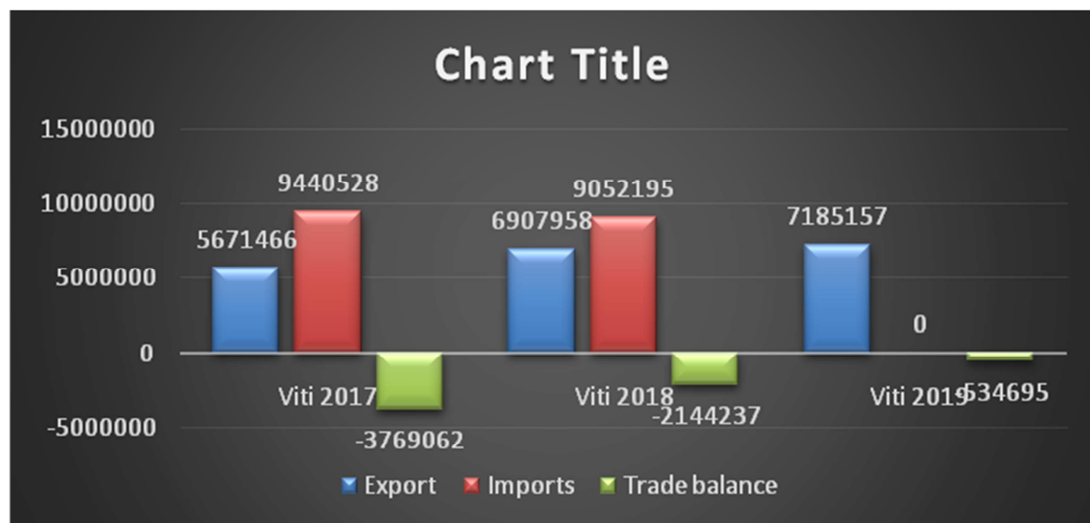


Figure 1. Analyzed and processed on the basis of data on the performance of trade with the outside world.

### 3. Conclusions

In terms of successful practices we have come to understand that various economic theories have identified well-known channels through which trade can affect economic growth, more specifically, trade is believed to promote efficient resource allocation, allow a country to realize economies of scale and scope, to facilitate the dissemination of knowledge, to promote technical-technological progress and to encourage competition in both domestic and international markets, which leads to an optimization of production processes and product development News. Various economists have extensively studied free trade, and although it creates winners and losers, the main consensus is that free trade generates a large net profit for society as a whole. In terms of economic recovery, we have come to realize that different countries are able to export different goods and services where they have competitive and comparative advantages. The Republic of Northern Macedonia has an unsatisfactory level of trade exchange where the main analytical pillar is the quality of products.

### 4. Recommendation

- 1) The Republic of Northern Macedonia, ie the policy-making institutions should define the products with development potentials and finance those products in various forms in order to be competitive in the foreign market.
- 2) Seeing that one of the main obstacles to not having a large volume of products is because of the poor quality of products, here state institutions should organize trainings for awareness that products should be of high quality and European countries expect that products to

be certified with relevant standards.

- 3) Changes in technology directly affect the increase of productivity and competitiveness of products, thus directly affecting trade flows.
- 4) The Republic of Northern Macedonia should provide grants, subsidies and financial assistance to non-governmental organizations in order to promote exports so that the products are of high quality.
- 5) Product promotion and full access to EU countries.
- 6) In order to design appropriate integration policies and as effective as possible, the improvement of legislation and the improvement of infrastructure are of special importance.

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